

Message Text

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ACTION EUR-12

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INFO AMEMBASSY BONN

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PASS TREASURY AND FRB

EO 11652: NA

TAGS: EFIN ECON SZ

SUBJ: SWISS FINANCIAL AND ECONOMIC REPORT: JULY 25-31

1. SUMMARY: SWISS FRANC APPRECIATED SLIGHTLY AGAINST MOST OTHER CURRENCIES. GOLD FIRMED SLIGHTLY IN NERVOUS MARKET. SWISS BELIEVE FRANC WILL REMAIN STRONG; BELIEVE COUNTRIES WITH LARGE RESERVES IN GOLD SHOULD COORDINATE POLICY TO NEUTRALIZE EFFECT IMF AUCTION IN MARKET AND MAINTAIN GOLD'S MONETARY STANDING. SWISS CAPITAL MARKET REMAINS HIGHLY LIQUID; INTEREST RATES EXPECTED REMAIN STEADY. AVERAGE INTEREST RATE ON SAVINGS ACCOUNT SURPASSED CONSUMER UNCLASSIFIED

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PRICE INCREASE FOR FIRST TIME IN SEVEN YEARS. SWISS

CLOCK EXPORTS DOWN. RETAIL SALES TURNOVER SHOWED INCREASE FIRST HALF 1976 AND 1975. FEDERAL COUNCIL PROPOSES RENT CONTROLS. END SUMMARY.

FINANCIAL

2. GOLD AND FOREIGN EXCHANGE: MARKETS NERVOUS, HECTIC THURSDAY; SNB INTERVENTION RESTORED CALM. DOLLAR DECLINED FROM SF 2.50 TO SF 2.48; DOLLAR WAS STEADY WHILE OTHER CURRENCIES SHOWED SLIGHT WEAKENING AGAINST SWISS FRANC. BANK CIRCLES BELIEVE FRANC WILL REMAIN STRONG IN VIEW SWISS BALANCE PAYMENTS SURPLUS AND LOW RATE INFLATION. GOLD OPENED 110 MONDAY; 114 TUESDAY; CLOSED 112 FRIDAY.

RATES FOLLOW:

	9/20 (OPEN)	9/30 (CLOSE)
SPOT DOLLAR	2,5055	2.4800
FORWARD DISCOUNTS (PCT.P.A.)		
ONE MONTH	- 4.31	- 4.60
2 MONTHS	- 4.33	- 4.28
3 MONTHS	- 4.34	- 4.35
6 MONTHS	- 4.11	- 4.03
12 MONTHS	- 4.07	- 3.97
SF/DM	97.24	97.46
GOLD	110.5	112.25

3. GOLD PRICE: SWISS BANK CIRCLES APPREHENSIVE COLLAPSE GOLD PRICE COULD RESULT IN GREATER UPWARD PRESSURE ON SWISS FRANC AS OPEC, OTHER INVESTORS SWITCH OUT OF GOLD. IMPACT IMF AUCTIONS DEEMED NEGATIVE, REDUCING INTENDED BENEFITS FOR DEVELOPING COUNTRIES FROM GOLD SALE AS PRICE DROPS. SWISS BELIEVE IMF SHOULD SELL GOLD THROUGH MARKET IN SMALL QUANTITIES AT MARKET PRICE. IF IMF FAILS TAKE CORRECTIVE ACTION, SWISS BELIEVE COUNTRIES WITH LARGE RESERVES IN GOLD MUST COORDINATE MARKET POLICY TO NEUTRALIZE IMF ACTION IMPACT AND RESTORE GOLD'S MONETARY STANDING.

4. SNB POLICY: SNB PRESIDENT LEUTWILER REPORTED ON ARRANGEMENT WITH OIL PRODUCING COUNTRIES TO HELP MAINTAIN SWISS MONETARY GOALS. SNB CREATED MEANS WHEREBY OIL UNCLASSIFIED

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MONIES MAY BE INVESTED IN MEDIUM-TERM NOTES ISSUED IN FRANC BY INTERNATIONAL DEVELOPMENT ORGANIZATIONS. DUAL PURPOSES SERVED; RECYCLING OIL MONEY AND OBLIGATION ON BORROWER CONVERT INTO DOLLARS AVOIDS IMPACT ON FOREIGN EXCHANGE MARKET.

5. MONEY AND CAPITAL: MARKETS CALM. CALL MONEY RATE 0.5 PERCENT. STOCKS DECLINED SLIGHTLY; SKA

INDEX (1959 EQUALS 100) 210.4 JULY 29, DOWN FROM 212.3 JULY 23. AVERAGE YIELD CONFEDERATION BONDS 5.09. SNB PROVIDED SHORT-TERM FOREIGN EXCHANGE SWAPS COMMERCIAL BANKS FOR THEIR END-OF-MONTH REQUIREMENTS. UNION BANK OF SWITZERLAND REPORTS SWISS MARKET VERY LIQUID DUE DEPRESSED DEMAND FOR COMMERCIAL CREDIT AND NEW INVESTMENTS; SNB FOREIGN EXCHANGE MARKET INTERVENTIONS AND INCREASED SAVINGS HELPED INCREASE LIQUIDITY. AS RESULT INTEREST RATE ON THREE MONTH MONEY HAS FALLEN ONE PERCENT BELOW END APRIL RATE. LIQUIDITY AND STRONG ABSORPTIVE CAPACITY MARKET SHOWN BY SF 5.3 BILLION NEW LOANS FLOATED JAN-MAY, UP 47 PERCENT OVER SAME PERIOD 1975. OBSERVERS SAY FOREIGN DEMAND FOR SWISS FRANC LOANS DECLINING DUE EXCHANGE RISK APPRECIATING FRANC. GROWTH CONSTRUCTION LOANS FELL FROM 60 PERCENT JANUARY TO 2.5 PERCENT APRIL BUT HOUSING LOANS UP 40-45 PERCENT. PUBLIC SECTOR BORROWINGS EXPECTED INCREASE NEXT FEW MONTHS, BUT PRIVATE INVESTMENT TO REMAIN LOW. RESTOCKING INVENTORIES, REPLACEMENT AND RATIONALIZATION ECONOMY SHOULD GIVE RISE GREATER CREDIT DEMAND; INTEREST RATES SHOULD REMAIN STEADY UNLESS SNB TIGHTENS MONETARY POLICY. THIRD QUARTER NEW ISSUES (25 BORROWINGS FOR SF 1.4 BILLION) CONSIDERED MODERATE. LONG TERM RATES SHOULD REMAIN STEADY.

6. SAVINGS: AVERAGE INTEREST RATE SAVINGS ACCOUNTS AT 12 CANTONAL BANKS FIRST HALF 1976 WAS 4.4 PERCENT, WHILE CONSUMER PRICE INDEX ROSE 2.3 PERCENT, FOR REAL INTEREST 2.1 PERCENT. FIRST TIME IN 7 YEARS INTEREST ON SAVINGS GREATER THAN CIP INCREASE.

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7. WATCH INDUSTRY: INDUSTRY EXPORTS FIRST HALF 1976 WERE SF 1,373.6 MILLION, 4.7 PERCENT BELOW LAST YEAR. WATCH AND MOVEMENT EXPORTS OF 27.8 MILLION UNITS VALUED SF 1,153.7 MILLION WERE 4.3 PERCENT BELOW 1975. INDUSTRY SPOKESMAN POINTED OUT THAT INDUSTRY MORE DEPRESSED THAN FIGURES SHOW BECAUSE 1975 EXPORTS CONSIDERABLY LOWER THAN IN 1974.

8. RETAIL SALES: TOTAL RETAIL SALES TURNOVER IN JUNE UP 5.4 PERCENT OVER JUNE 1975, AFTER 5.9 PERCENT DROP MAY. FIRST HALF 1976 RETAIL TURNOVER UP 4.5 PERCENT OVER FIRST HALF 1975.

9. RENT CONTROLS: FEDERAL COUNCIL SENT MESSAGE TO PARLIAMENT PROPOSING UNIFORM SYSTEM OF CONTROLS TO PROTECT RENTERS.

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